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SUBJECT: KYRGYZ HIPC DEBATE BECOMES POLITICAL HOT POTATO

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Classified By: Amb. Marie L. Yovanovitch, Reason 1.4 (b) and (d).

11. (SBU) Summary: The arrival this week of a World Bank team to Bishkek for 2-3 weeks of technical consultations has focused political and media attention on the HIPC initiative.

According to a World Bank insider, Kyrgyz object to energy reforms proposed under the HIPC program, specifically regarding tariffs and schedules, and to a lesser extent mining reforms top the team's agenda. Local media have been very critical of HIPC, but have recently begun running more balanced assessments of the initiative. Nevertheless, public commentary appears strongly negative towards HIPC.

12. (C) Summary continued: According to National Bank Chairman Alapaev, the government's HIPC advisory board is evenly split. In Alapaev's view, HIPC opponents either lack information or are attempting to score political points. While admitting that he "fears for his family" due to his support of HIPC, Alapaev argued that the government must decide the HIPC issue to avoid the likelihood of Parliament scuttling Kyrgyzstan's chances of joining the HIPC initiative. The President and Prime Minister fear a backlash from an opposition that has painted the HIPC initiative as a loss of "independence," a shameful association with African countries and a decline into international "receivership." Postponing a decision on HIPC to late December may give the government time to counteract some of the negativity, but the government still lacks a unified voice to advocate joining the HIPC initiative. End summary.

Energy and Mining on the Agenda

13. (SBU) The simmering debate in Kyrgyzstan over the Heavily Indebted Poor Countries (HIPC) debt relief initiative has intensified with this week's arrival of a World Bank team planning to hold technical discussions with Kyrgyz officials to resolve outstanding sticking points preventing Kyrgyzstan's accession to the HIPC initiative. World Bank

Operations Officer Mirlan Aldayarov told emboff November 24 that broad agreement with the Kyrgyz has been reached on policy issues with the exception of two "problem areas" -- energy and to a lesser extent mining.

14. (SBU) On the energy front, Aldayarov noted differences over "realistic views" (on topics such as tariff reform and privatization) and pressure to "soften deadlines." The World Bank has previously advocated the privatization of Kyrgyz power distribution companies and has recently emphasized the need for tariff revisions, but has seen Kyrgyz authorities focus on the completion of the Soviet-era Kambarata hydroelectric stations. On mining, Aldayarov said "the government is coming around with decisions on key mines already having been made," but cautioned that "transparency" remained an issue. His comments provided additional context to complaints emboffs have heard elsewhere about "inflexible" World Bank proposals and distaste for the World Bank's robust schedule of "triggers" linked to the HIPC initiative's implementation. Aldayarov promised to advise emboff of any roadblocks encountered during the HIPC discussions, which began November 29.

For National Bank Chairman, HIPC Debate Gets Personal

15. (C) National Bank chairman Marat Alapaev told the Ambassador November 30 that the government's HIPC advisory committee is evenly split. Alapaev, Minister of Finance Japarov and Presidential Chief of Strategic Development and Expertise Ukulov favor HIPC, whereas Foreign Minister Jekshenkulov, Deputy Prime Minister Usenov and Presidential Advisor Bekboyav oppose it. Opponents, according to Alapaev, fall into two categories: 1) people who do not have any information about the HIPC initiative, and 2) people who are

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using the issue to advance political agendas.

16. (C) Alapaev argued that the government should rely on its experts to reach a decision on HIPC. He feared that Kyrgyzstan's chances of joining HIPC would be doomed if debated in Parliament. The government, Alapaev said, "must decide, not the population." He recounted to the Ambassador how his parents, brother and other relatives have been pressured over his support of HIPC, with his brother receiving calls from the tax authorities and customs. Alapaev confided in the Ambassador that he "fears for his family." He noted that Parliament's Budget and Finance Committee chairman Keldibekov lambasted the National Bank for its advocacy of HIPC and called for stripping Alapaev of his citizenship. Despite his public bombast, Keldibekov, according to Alapaev, privately conceded his understanding of the benefits of joining HIPC. Alapaev also noted that Russia is playing a significant role in the anti-HIPC movement.

Is the Official Opposition Moderating its Stance?

17. (C) After emboff noted that the Ambassador sent letters November 20 on HIPC to President Bakiyev and Prime Minister Kulov, the World Bank's Aldayarov said he has "been hearing that the President and Prime Minister have already decided to go with HIPC." PM Kulov advised the Ambassador November 30 that "President Bakiyev said he will do what we advise," but Kulov cautioned, "look at the popular reaction." The World Bank's Aldayarov, however, pointed out the recent "silence" of prominent HIPC opponents, FM Jekshenkulov and Deputy PM Usenov. Usenov, who in his advisory position advocated against HIPC and who previously threatened to resign if Kyrgyzstan signed on to the HIPC initiative, reportedly announced on television November 24 that Kyrgyzstan might "join this initiative under terms beneficial for us."

Emotions Still High in the Media

¶8. (SBU) Although Kyrgyz media have recently included more balanced and analytical pieces on HIPC, many articles still contain sensational and emotional appeals against joining the HIPC initiative. While bemoaning a loss of "independence" if Kyrgyzstan joins the HIPC initiative, many commentators bristle at comparisons with existing, mostly African, beneficiaries of the HIPC initiative. Other HIPC opponents have raised the specter of outsiders taking over Kyrgyz infrastructure, the country falling into international "receivership" and the loss of flexibility in future negotiations with international institutions. An anti-HIPC rally November 29 outside the World Bank attracted approximately 30 people.

¶9. (C) The Central Bank and the Ministry of Finance have made positive statements about HIPC, with the Central Bank November 29 leading a panel discussion on HIPC at the American University of Central Asia. Alapaev advised the Ambassador that originally he and others reasoned that the government did not require public approval for an inherently governmental decision. He admitted to the Ambassador that now he realizes this approach was a mistake. Alapaev detected an anti-American streak in the opposition to HIPC, and cautioned that any overt U.S. support of the HIPC initiative might be counterproductive in the current Kyrgyz environment.

Comment

¶10. (SBU) With the World Bank discussions scheduled to last until mid-December, it is unlikely that the government will take any significant announcements on HIPC until the discussions reach a conclusion. Given the possibility that

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postponing a decision until 2007 might reduce the amount of debt relief available, the government, if it can reach a consensus, cannot afford to delay action on HIPC beyond the end of December. (Note: Economic data covering 2006 may be available as early as January 2007. If, as generally believed, economic conditions improved in 2006, debt relief available to Kyrgyzstan may subsequently decrease. End note.)

¶11. (SBU) While the media atmosphere remains stormy with politicians trying to score political points, a late December announcement might give the government time to counteract some of the negativity. However, Parliament is anxious to exercise powers embodied in the new constitution, and thus may seize upon the unpopular HIPC initiative to prove the need for increased parliamentary oversight of the government. YOYANOVITCH